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Message Text

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64
ACTION NEA-12

INFO OCT-01 EA-11 ISO-00 PM-07 NSC-10 SPC-03 SS-20 RSC-01

AID-20 CIAE-00 COME-00 EB-11 FRB-02 INR-10 NSAE-00

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

PA-04 PRS-01 USIA-15 AGR-20 INT-08 SCEM-02 SCI-06

DRC-01 /194 W
---------- 069990
R 211225Z DEC 73
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 8661
INFO AMEMBASSY BANGKOK
AMEMBASSY DACCA
GQESQD/AMEMBASSY ISLAMABAD 0015

RUMJHTGNAMEMBASSY KATHMANDU 6360
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

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E.O.11652: N/A
TAGS: EFIN EGEN ECON IN
SUBJECT: FIFTH FIVE YEAR PLAN PRESENTED TO PARLIAMENT

REFS: A. TOAID A-29, FEBRUARY 6, 1973
B. NEW DELHI 14349

1. ON DECEMBER 19, THE FIFTH FIVE YEAR PLAN, (APRIL 1, 1974-
MARCH 31, 1979) WAS PRESENTED TO PARLIAMENT. THE DECLARED GOALS
OF THE PLAN ARE APPRECIABLE PROGRESS TOWARDS REMOVAL OF POVERTY AND
THE ACHEIVEMENT OF SELF-RELIANCE. WE HAVE NOT YET HAD A CHANCE TO
LOOK OVER THE DOCUMENT IN DETAIL AND THE FOLLOWING RELIES MAINLY ON
PRESS AND PLANNING COMMISSION SUMMARIES. THE APPROACH DOCUMENT,
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PREPARED A YEAR AGO, SET THE BASIC GUIDELINES FOR THE PLAN AND THIS
WAS SUMMARIZED AND ANALYZED IN TOAID A-29 OF FEBRUARY 6, 1973.

2. MAJOR FIGURES IN APPROACH PAPER AND SUBSEQUENT CHANGES ARE
SUMMARIZED IN THE FOLLOWING TABLE;

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	RS. MILLION	
	APPROACH PAPER	PLAN
TOTAL OUTLAY	511,660	534,110
PUBLIC SECTOR	355,950	372,500
PRIVATE SECTOR	155,710	161,610
RESOURCE MOBILIZATION	66,150	68,500
CENTER	41,500	43,000
STATES	24,550	25,500
GROSS EXTERNAL ASSISTANCE	30,000	40,080
NET EXTERNAL ASSISTANCE	6,400	14,510
DEFICIT FINANCING	18,560 (BETWEEN 1976/77 AND 1978/79)	10,000
GROWTH RATE (VALUE ADDED)		
AGRICULTURAL	3.97 PERCENT	3.9 PERCENT
INDUSTRIAL	8.14 PERCENT	8.1 PERCENT
EXPORTS	7.00 PERCENT	7.6 PERCENT
OVERALL	5.5 PERCENT	5.5 PERCENT

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3. MUCH OF THE PLAN IS STATEMENTS OF WORTHY AIMS AND POSTUALATION OF NEEDED MINIMUM TARGETS. THE PLAN FALLS DOWN IN PRESENTING CREDIBLE WAYS TO ACHIEVE THEM. THE LACK OF REALITY AND THE INTERNAL INCONSISTENCIES OF THE PLAN WERE WIDELY NOTED AT THE TIME THE APPROACH DOCUMENT WAS ISSUED, AND SUBSEQUENT DEVELOPMENTS HAVE ONLY SERVED TO REINFORCE DOUBTS. IT IS ALMOST AS CERTAIN AS DEATH AND TAXES THAT PERFORMANCE WILL FALL SHORT BY A COUNTRY MILE FROM THE PLAN'S TARGETS. IN FACT, THE LIKELIHOOD IS THAT THE PLAN WILL ALMOST HAVE NO CONNECTION WITH REALITY. WHILE THE PLAN AIMS AT 5.5 O/O AVERAGE INCOME GROWTH, SOURCES WITHIN THE PLANNING COMMISSION TELL US THAT MOST PEOPLE AROUND THERE WOULD BE SATISFIED WITH SOMETHING AROUND A 4 PERCENT RATE OF GROWTH. AS WAS POINTED OUT IN TOAID A-29, THE ASSUMPTIONS ON RESOURCE MOBILIZATION IN THE APPRROACH DOCUMENT WERE HEROIC AT THE TIME AND THE RAPID INFLATION SINCE

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AND THE INCREASING GOVERNMENT EXPENDITURES ON CURRENT ACCOUNT HAVE MADE THEM INCREASINGLY MORE HEROIC. THE PLAN TALKS ABOUT GREATER FISCAL REVENUES TO INCREASE THE CURRENT SURPLUS, BUT THE MEASURES TALKED ABOUT HAVE STILL BE BE ENACTED AND SEEM UNLIKELY TO PRODUCE MUCH REVENUE IN ANY EVENT.

4. THE ADDITIONAL OUTLAY IN THE PLAN FROM THE APPROACH DOCUMENT IS AN ATTEMPT TO DEAL WITH THE EFFECTS OF LAST YEAR'S INFLATION. THE INCREASE IS ALMOST CERTAINLY INADEQUATE, AND ITS MALL SIZE (RS.23 BILLION) OR LESS THAN 5 PERCENT OF THE PLAN SHOWS THE DIFFICULTY IN TRYING TO FIND CREDIBLE SOURCES OF ADDITIONAL FUNDS. IT WAS ACCOMPLISHED IN PART BY INCREASING NET EXTERNAL ASSISTANCE FROM RS,6.4 BILLION TO RS.14.5 BILLION. THE EFFECT OF THIS WAS TO MOVE BACK THE HOPE FOR ZERO NET AID FROM 1978-79 TO 1985-86.

5. THE MOST QUALIFIED AND PRESTIGIOUS ECONOMIST ON THE PLANNING COMMISSION, DR. B.S. MINHAS, RESIGNED OVER THE LACK OF REALITY IN THE PLAN (NEW DELHI 14349), WHILE BOOTHELINGAM OF THE WELL-REGARDED NATIONAL COUNCIL OF APPLIE ECONOMIC RESEARCH SUGGESTED THAT THE IMPLEMENTATION OF THE PLAN BE POSTPONED A YEAR WHILE IT WAS REWORKED TO FIT CURRENT REALITIES. ONE OF HIS OBJECTIONS TO THE PLAN IS THAT IT CONTINUES TO STRESS HEAVY INDUSTRY AT THE EXPENSE OF FINAL PRODUCTS, DESPITE THE DISTORTIONS AND UNEVEN UTILIZATION OF CAPACITY THIS HAS LED TO.

6. ONE OF THE PROBLEMS THE PLAN FACES IS THE SHORTFALL IN SEVERAL
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KEY AREAS IN ACTUAL PERFORMANCE IN THE FOURTH PLAN PERIOD FROM THAT ANTICIPATED AT THE TIME THE APPROACH DOCUMENT WAS MADE UP. FOR EXAMPLE, CEMENT PRODUCTION IS LIKELY TO BE CLOSER THIS YEAR TO 14 MILLION TONS THEN THE 18 MILLION TONS THE APPROACH DOCUMENT ASSUMED. THIS HAS NECESSITATED SEVERAL ADJUSTMENTS IN TARGETS IN INDIVIDUAL PRODUCTION AREAS IN ORDER TO MAINTAIN THE OVER-ALL 5.5 PERCENT RATE OF GROWTH. THE TARGETED PRODUCTION OF COAL, IRON ORE, AND CEMENT HAS BEEN SCALED DOWN, WHILE HIGHER GROWTH HAS BEEN TARGETED IN MINING, ELECTRICITY, BASIC METALS AND VARIOUS ENGINEERING PRODUCTS. THE UPWARD REVISIONS SEEM MORE EXPRESSIONS OF HOPE THAN LIKELY PERFORMANCE.

7. WHILE THE APPROACH PAPER ASSUMED THAT CRUDE OIL PRODUCTION WOULD REMAIN VIRTUALLY STAGNANT AT 7.7 MILLION TONS, THE PLAN PRESENTED TO PARLIAMENT ESTIMATES PRODUCTION AT 12 MILLION TONS BY 1978-79.

8. THE PLAN REVISES THE ESTIMATED DEFICIT FINANCING REQUIRED DOWNWARD FROM RS.18.6 BILLION IN THE APPROACH DOCUMENT TO RS.10 BILLION. THE CHANGE IS A BOW TO THE CURRENT INFLATION AND THE CONTRIBUTION DEFICIT FINANCING WOULD HAVE ON IT. ACCORDINGLY, THE DEFICIT FINANCING IS BUDGETED ONLY FORTHE LAST THREE YEARS OF THE PLAN. THIS SORT OF GAMES PLAYING IS TYPICAL OF THE UNREALITY OF THE PLAN.

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9. WE SHALL SEND IN COPIES OF THE DRAFT PLAN UNDER CERP AND MORE DETAILED ANALYSIS AND EXPLANATION OF IT AFTER WE HAVE HAD A CHANCE TO LOOK IT OVER IN GREATER DETAIL. IN PARTICULAR, WE RECOGNIZE THE NEED TO FIND OUT WHAT, IF ANYTHING, LIES BEHIND THE TARGETED MARKED INCREASE IN CRUDE OIL PRODUCTION.
MOYNIHAN

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Disposition Date: 28 MAY 2004
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Film Number: n/a
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